

Cover photo by Christopher Myers

Acres of Assets

Army Drives Prime Real Estate Deals

By [Amrit Dhillon](#) | Corridor Inc. Staff Writer

Originally published February 2007

Bob Penn doesn't get to hit the links as often as he'd like anymore. He's too busy criss-crossing the country, helping the U.S. Army make its own hole in one.

From Anne Arundel County's Fort George G. Meade to Alaska's Fort Greely, Penn is helping turn underutilized and budget-draining government sites into revenue-collecting properties by negotiating long-term leases with private developers.

It's all part of the Enhanced Use Leasing program, a real estate coup that is helping the U.S. Department of Defense capitalize on the area's booming commercial market.

"We're bringing the entrepreneurial spirit [to the government]," said Penn, assistant chief of the U.S. Army Corps of Engineers' real estate division and director of the Enhanced Use Leasing (EUL) program.

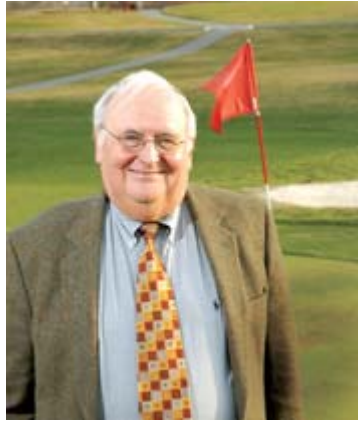
That spirit has thrived in Maryland. Three of the 15 deals underway across the country are in the state. A 540-acre deal at Fort Meade and two separate projects totaling 1,500 acres at Harford County's Aberdeen Proving Ground are among the largest EUL endeavors, Penn said.

The real estate adage location, location, location is the reason why these sites are prime for a deal.

"A location like Fort Meade, with high value real estate and big demand from the private sector, makes for a great EUL," said Penn, who works out of the Corps of Engineers' Baltimore office.

With the Base Realignment and Closure (BRAC) process bringing thousands of jobs and contractors to the state, developers have been gearing up for the anticipated demand for space — making the project at Fort Meade a hot commodity.

“Before BRAC, the EUL was a way to leverage the value of military assets,” said J. Thomas Sadowski Jr., executive vice president of the Economic Alliance of Greater Baltimore. “With BRAC, the EUL is being looked at as a way to implement growth.”



Bob Penn of the U.S. Army Corps of Engineers' real estate division and director of the Enhanced Use Leasing (EUL) program.

Photo by Christopher Myers

Last year, five companies vied for the Fort Meade deal, said Penn. In November, commercial real estate firm Trammell Crow Co., which is now a subsidiary of CB Richard Ellis, was selected.

The Corps of Engineers, which administers the Army's EUL program, was looking for a developer to build Class A office space outside the gate, said Mark S. Corneal, a senior vice president at Trammell Crow who has been working on the project.

The company will be responsible for developing roughly 173 acres into approximately 2 million square feet of office space outside the base's gates, as well as building two new golf courses and a club house on the periphery of the base, he said.

CB Richard Ellis, which recently absorbed the leasing arm of Trammell Crow, will lease the office space. The entire project is expected to cost the company in excess of \$700 million, Corneal said.

But these deals aren't just about turning a profit; the project has to complement the missions of the military installation too.

At Fort Meade, the EUL deal was critical to executing the base's master plan — “turning the installation inside out,” said Col. Kenneth O. McCreedy, the Fort's commander.

“We want to take recreational and commercial activities to the periphery and bring higher level security missions to the center of the base,” McCreedy said. “The EUL immediately unlocks this.”

The two existing golf courses on base, which are revenue-generators, will be used to build offices for government work.



Kenneth O. McCreedy says the two-course golf complex at Fort Meade generates revenue for the base.

Photo by John Keith

The current plan calls for the Defense Information Systems Agency, the Defense Department's central communications group, to be housed on the site, said McCreedy. That development will be independent of the EUL deal.

As part of the EUL process, McCreedy and officials at Trammell Crow are now discussing how to move forward. After a definitive business plan is established, they will sign a master lease, said Penn.

But Trammell Crow has already started meeting with prospective tenants, Corneal said. He speculated that major defense contractors will likely be among the possible tenants.

"We think we know what these users want and how to provide it to them," he added.

With the EUL deal, Trammell Crow will pay the ground rent on the land with in-kind services, said McCreedy.

Most commercial real estate development transactions would require Trammell Crow to pay the property lease via cash, the EUL allows for in-kind services instead. While the final details are still being negotiated, building the Fort's new 36-hole golf complex is one in-kind service that has been agreed upon.

Trading for services is nothing new. For years, the Army has accepted in-kind consideration or cash for leases to banks, credit unions and cellular communication companies, among others. The parameters of the program were limited though. The current EUL program, however, allows the Army to use those services for bigger projects, including construction.

A federal amendment in 2002 gave the Defense Department the latitude to use EUL deals to build or improve base facilities. That opened the door for the Corps of Engineers to try new things.

"It provided a broader scope of what we could do," Penn said. "With EUL we can take money we were spending off our books and bring buildings back to productivity — making money by collecting rent."

The deals are structured "as close to private sector deals" as possible and are typically 50-year leases, said Penn.

The only con to the program Penn can think of has to do with long-term planning.

“We have to watch carefully so we don’t over-extend something we need for a mission [down the road],” he said. “We have to have a strategy.”

While McCreedy and his staff identified the Fort Meade space with EUL potential and then worked with the Corps of Engineers, deciding what space can and should be used comes in a “variety of ways,” said Penn.

“Sometimes the installation calls and says look at this,” he said. “In some cases, we go visit the installation; sometimes even the director of the Army calls.”

While the Army has been leading the charge with EUL projects, the program is not limited to this military branch. The U.S. Department of Veterans Affairs has taken advantage of the program and both the U.S. Navy and Air Force are looking into how they can better utilize the program.

The Navy, which recently finished its second EUL facility deal, is starting to look across installations, said Howard Kelsey, its director of real estate.



Col. McCreedy stands on the grounds of an inactive landfill at Fort Meade. It will be home to the newly relocated 36-hole golf complex, as part of the Army's recent EUL deal.

Photo by John Keith.

Of 14 potential sites it is currently looking at, one is located near the U.S. Naval Academy in Annapolis and three to four sites are in Norfolk, Va., he said.

The Navy only owns a total of 3.5 million acres of land, said Kelsey. By comparison, the Army has more than 12 million acres of land, according to the Corps of Engineers headquarters.

“We think our opportunities are fewer [than the Army] but are in places where land is more valuable,” Kelsey said.

The Army established its EUL methods in 2003, with the leasing of two historic buildings on the campus of Walter Reed Army Medical Center in Washington, D.C.

“We created the structure and the process and built it here [at the Army],” said Penn, who along with his staff of 10 comes from private practice. “It’s like creating a business within the government.”

Still, it’s hard to say what future sites could emerge around the area because time and needs change, he said.

At Fort Meade, McCreedy acknowledged “there are some other opportunities and we’ll look at them as we go along.”

Though he noted there’s plenty to do with the current EUL “before moving on.”

Regardless, with EUL “we’re only limited by our imagination,” said Penn.